



State of Texas

Office of the Attorney General

**Risk Assessment Plan**

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## Planning Overview and Background

This Risk Management Plan develops a process to identify contracts with the greatest risk exposure that could cause unexpected negative effects. The plan outlines the method of risk assessment used to evaluate the contract and serves to guide the contract management teams to rank potential risk areas using this method. This plan uses a Risk Assessment Tool (see Risk Assessment Tool Guide) to calculate risk score, provide a solution, and rank the contracts.

## Risk Attributes

The following attributes are used in the Risk Assessment Tool to determine impact and probability scores at the contract level. A detailed description of the risk attributes can be found in the Risk Assessment Tool.

- Contract Cost Revisions
- Contract Duration Limitations
- Transaction and Data Volume
- Monitoring and Quality Assurance
- Vendor Control Activities and Data Quality
- Communication and Customer Service
- Complexity of Vendor Operations and Processes
- Complexity of Implementation
- Close Out
- Extent of Government Regulations
- Vendor Cooperation with Audits
- Potential for Public Disclosure
- Vendor Experience and Past Performance
- Physical and System Security
- Data Security
- BC/DR
- Training
- Financial Assurance and Credit Worthiness
- Fraud, Waste and Abuse
- Other

## Reports

Various reports will be created once the risk assessment has been completed for all contract. The reports will identify high risk contracts that will then require enhanced monitoring.

## Risk Assessment Overview

The risk assessment process provides agency management with the essential means to strengthen planning, evaluate procurements, and establish the need for engagement frequency in given areas of the organization. The process entails identification of risk attributes and the assignment of impact and probability by the Risk Evaluation team. The final result of this process produces a Risk Assessment Score (RAS) and a Qualitative Value for each contract area. The RAS and Qualitative Value of each project area provide both Contract Management teams with simple indicators to rank relative contract priorities.

## Risk Analysis Overview

The analysis of risk has several key characteristics that remain constant, whatever the method chosen for the study. These are identified below:

- Risk assessment grows out of the management team's understanding of the vendor's operations and environment.
- Risk assessment considers both financial and non-financial risk. Non-financial factors may eventually have economic consequences.
- Risk assessment must be sensitive to the inverse relationship between risk and control. The weaker the internal control system, the greater the risk.
- Risk assessment is a dynamic process. Analysis must remain sensitive to change and must incorporate risk contingencies.
- Risk assessment is pivotal in choosing areas to evaluate
- Risk assessment provides the most effective and efficient means to meet evaluating needs of the entity.
- Risk assessment is an important factor in planning the degree and frequency of vendor audits and follow-up measures.
- Risk assessment is a process that is crucial to the development of effective contract monitoring and quality control and assurance measures.

## The Risk Assessment Process

Risk analysis and the calculation of the Risk Assessment Score (RAS) involve several steps. RAS is the factor of the impact and probability scores for a particular Risk Attribute. The steps describing the Risk Assessment Process are described below.

### Step 1 – Selecting the Contracts

Form a Risk Evaluation team and compile a list of potential contracts. The Risk Evaluation team may consist of select staff from various divisions. Each contract manager can evaluate their contracts.

### Step 2– Identifying Risk Evaluation Attributes

The Risk Evaluation team must identify the key elements of risk within their operational process. Risk Attributes important to the measurement of risk exposure have been developed. The impact and probability of each attribute will be assessed by the Risk Evaluation team.

### Step 3– Evaluating the Significance of the Attribute Impact

The attributes are assessed for the significance of each attribute's impact to risk exposure. The Risk Evaluation team assigns each Risk Attribute a Descriptive Value from 0 to 5, with the highest value indicating the most severe impact. Zero (0) is a score reserved for Risk Attributes that are not applicable to the contract. A score of 0 will not impact the overall score.

Impact	The severity of a negative outcome for a Risk Attribute	
5	Catastrophic	Unable to function, security breach, inability to fulfill contract obligation(s)
4	Severe	Significant impact on fulfilling contract obligation(s)
3	Moderate	Fulfilling contract obligation(s) is/are partially achievable
2	Minor	Low impact on fulfilling contract obligation(s)
1	Minimal	Insignificant impact in fulfilling contract obligation(s)
0	Not applicable	Risk Attribute is not applicable to the contract

## Step 4– Evaluating the Probability of the Risk Exposure

The next step entails evaluating the probability of risk exposure per each Risk Attribute. The Risk Evaluation team assigns each Risk Attribute a Descriptive Value from 0 to 5, with the highest number indicating the greatest probability of risk exposure. Zero (0) is a score reserved for Risk Attributes that are not applicable to the contract. A score of 0 will not impact the overall score.

Probability	The likelihood that a negative outcome for a Risk Attribute will occur	
5	Almost Certain	Will undoubtedly happen
4	Likely	Will probably happen
3	Even Chance	An equal likelihood of occurrence or not
2	Unlikely	Not expected to happen
1	Remote	Very unlikely this will ever happen
0	Not applicable	Risk Attribute is not applicable to the contract

## Step 5–Calculating the Risk Assessment Score

The RAS is calculated by the Risk Tool to produce a numeric score. Each Risk Attribute receives a RAS. The RAS for each Risk Attribute is totaled to arrive at an average RAS for the contract. The RAS average is assigned a corresponding Qualitative Value (high, medium or low) with high representing the greatest risk exposure.

## Step 6– Ranking the Contracts

In the final step, the contracts are analyzed by the RAS and ranked according to their RAS.

Risk Matrix					
Probability	Impact				
	Minimal (1)	Minor (2)	Moderate (3)	Severe (4)	Catastrophic (5)
Almost Certain (5)	5	10	15	20	25
Likely (4)	4	8	12	16	20
Even Chance (3)	3	6	9	12	15
Unlikely (2)	2	4	6	8	10
Remote (1)	1	2	3	4	5

1-5 Low
6-12 Medium
15-25 High